

ILLINOIS  
COMMERCE COMMISSION

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Before the CHIEF CLERK'S OFFICE  
Illinois Commerce Commission

Docket No. 01-0663

In the Matter of

Approval of an Increase and  
Adjustment of Rates and Charges for  
Water Utility Service Sold by  
**Lake Wildwood Utilities, Corp.** within  
Marshal County

Rebuttal Testimony of

Steven M. Lubertozi  
Director, Regulatory Accounting

for

Lake Wildwood Utilities, Corp.

February 15, 2002

1   **Q.   Please state your name and business address.**

2   A.   My name is Steven M. Lubertozi. I am the Director of Regulatory Accounting for  
3       Utilities, Inc. and its subsidiaries. My business address in 2335 Sanders Road,  
4       Northbrook, Illinois 60062.

5

6   **Q.   Mr. Lubertozi, have you previously filed direct testimony in this proceeding?**

7   A.   Yes, I have.

8

9   **Q.   Mr. Lubertozi have reviewed the Direct Testimony of Staff's witnesses?**

10  A.   Yes, I have.

11

12  **Q.   Are there any adjustments proposed by the Staff that you agree with?**

13  A.   Yes, we agree with Staff's proposed adjustment to Payroll Tax Expense Adjustment  
14       (Schedule 1.15).

15

16  **Q.   Are there any adjustments proposed in the Staffs' Direct Testimony and  
17       corresponding Exhibits that you disagree with?**

18  A.   Yes, there is.

19

20  **Q.   Please discuss the first Staff adjustment that you disagree with.**

21  A.   Staff's adjustment to Uncollectible Accounts, Schedule 1.9. In this proposed  
22       adjustment Staff has used a three-year (1998, 1999, 2001) averaging method of  
23       accounts written off. Staff has excluded the year 2000 from their calculation, as  
24       they believe that the amount written off in the year 2000 was "abnormally high"  
25       (ICC Staff Exhibit 1.0, Schedule 1.9, Page 2 of 2), yet Staff has provided no support  
26       for their conclusion. Staff's adjustment to Uncollectible Accounts, Schedule 1.9  
27       has abandoned the traditional test year methodology in favor of a backward looking  
28       approach that would allow the Staff to select certain expense categories, examine

1       them over an arbitrary historical period, and then reduce the Company's test year  
2       expenses to reflect an average over that period. This proposed averaging method  
3       causes the Commission to look backwards and is nothing more than an assurance  
4       that the Company will not be able to recover these charges. In addition, the  
5       Company believes that using the uncollectible account balance (Acct. No. 6708000)  
6       is the proper basis for determining uncollectibles. The balance in Uncollectible  
7       Accounts (Acct. No. 6708000) at December 31, 2000 was incorrect in the  
8       Company's Application, the correct balance is \$18,186. This adjusted amount  
9       correctly reflects Lake Wildwood's Uncollectible Accounts for the year 2000.  
10      Comparing this amount (\$18,186) to the billings for the test year less cash  
11      collections, see Rebuttal Exhibit SML-1, further supports using this account.  
12      Rebuttal Exhibit SML-1 compares Uncollectible Account balances to billing less  
13      cash collected. There is nothing in the record that suggests that this expense would  
14      decrease as indicated on ICC Staff Exhibit 1.0, Schedule 1.9, page 2 of 2. In  
15      addition, Staff's proposed adjustment to Uncollectibles does not fit the category of  
16      "known changes." Charles Phillips discusses known changes in the 1993 edition of  
17      *The Regulation of Public Utilities* on page 196. I have attached as SML-Rebuttal  
18      Exhibit 2 page 196 of *The Regulation of Public Utilities*. On this page, Dr. Phillips  
19      elaborates on "known changes" by noting:

20               For many years, commissions have adjusted test-year  
21               data for "known changes"; that is, a change that  
22               actually took place during or after the test period..."  
23

24      This discussion makes clear that the "known changes" referenced by Dr. Phillips  
25      are only changes during and after the test year, and not prior to the test year.  
26      Therefore, I believe that Staff's adjustments presented on ICC Staff Exhibit 1.0,  
27      Schedule 1.9 should be rejected and that the actual uncollectible account balance  
28      of \$18,186 should be used.

1   **Q.   Please discuss the next Staff adjustment or adjustments that you disagree**  
2       **with.**

3   A.   Staff's adjustment to Reallocation of Water Service Corporation Expenses, Schedule  
4       1.10 and Reallocation of Illinois Cost Center Expenses, Schedule 1.11 uses a "Staff-  
5       prepared worksheet" using revised customer equivalents to adjust actual test year  
6       expenses and rate base. In these "Staff-prepared worksheet[s]" Ms. Jones has  
7       updated the customer equivalents that are presented in a book entitled Water  
8       Service Corporation Distribution of Expenses Year-End 2000 to reflect updated  
9       customer information. This method of allocation is incorrect because Ms. Jones  
10      has attempted to distributed expenses to companies that are not yet operated by  
11      Water Service Corporation (WSC), and Ms. Jones has attempted to insert billing  
12      units for customer equivalents. Ms. Jones' attempt to complete only a portion of  
13      the WSC allocation book is inappropriate. I agree that the allocation factors will  
14      change with the acquisition of new companies, but it is also true that the expenses  
15      on which these allocations are based will also increase. This arbitrary adjustment  
16      to a voluminous and complicated allocation book will only ensure that the  
17      Company would not be able to recover these expenses. Therefore, I believe that  
18      Staff's adjustments presented on ICC Staff Exhibit 1.0, Schedule 1.10 and  
19      Schedule 1.11 should be rejected and that the test year figures presented in the  
20      Water Service Corporation Distribution of Expenses Year-End 2000 should be  
21      accepted as filed.

22

23   **Q.   Could you explain two previously mentioned points? First on companies not**  
24       **yet being operated by WSC, and secondly on inserting billing units for**  
25       **customer equivalents.**

26   A.   Yes, I can. Staff has included Holiday Hills Utilities, Inc., Westlake Utilities, Inc.  
27       and Wildwood Water Service Company in their calculation of allocation factors. As  
28       of the filing date of this testimony (February 15, 2002) WSC is not operating  
29       Wildwood Water Service, and WSC was not operating either Holiday Hills Utilities,

1 Inc. or Westlake Utilities, Inc. as of the date the allocation book was prepared. It  
2 would be inappropriate to distribute expenses to companies the WSC was not  
3 operating in the test year and/or currently still not operating. Secondly, Staff has  
4 attempted to insert billing units (presented in Schedule E-1 of Applicant's filing)  
5 into a schedule (SML-Rebuttal Exhibit 4) that is based on taps and customer  
6 equivalents. Customer equivalents and billing units are two different calculations,  
7 and changing one company (Lake Wildwood) to a billing units calculation and  
8 leaving the other companies at customer equivalents would be inappropriate,  
9 because doing so would decrease expenses allocated to Lake Wildwood and  
10 increase expenses to all other companies.

11  
12 **Q. Are there any other adjustments proposed by Staff that have been affected by**  
13 **the adjustment to the allocation factors?**

14 A. Yes, there is. Staff's adjustment to Water Service Corporation and Illinois Cost  
15 Center Rate Base (Schedule 1.8) is also incorrect because Staff has attempted to  
16 distribute Rate Base to companies that are not yet operated by Water Service  
17 Corporation (WSC), and thus, inappropriately dilute rate base that should be  
18 allocated to Lake Wildwood.

19  
20 **Q. Is the rate base shown on Schedule B, column Water Service Corporation the**  
21 **correct rate base that should be allocated to Lake Wildwood?**

22 A. No, due to an inadvertent error in the Application. The correct amount of rate base  
23 that should be allocated to Lake Wildwood is \$28,295. This amount is fully  
24 supported in the Water Service Corporation Distribution of Expenses Year-End  
25 2000

26  
27 **Q. Could you explain why certain WSC expenses and rate base are allocated to**  
28 **Lake Wildwood customers and why this method is correct?**

1 A. WSC provides management, administration, engineering, accounting, billing, data  
2 processing, and regulatory services for the utility systems. WSC's expenses are  
3 assigned directly to a utility or distributed to the various companies pursuant to a  
4 formula that has been approved by the Commission.

5  
6 **Q. Please discuss the next Staff adjustment that you disagree with.**

7 A. The Staff's adjustment to Rate Case Expense, Schedule 1.14 only includes  
8 expenses incurred to mail notices and my capitalized time. Staff's adjustments do  
9 not include attorney's fees. Total rate case expense through February 15, 2002 is  
10 approximately \$9,244. In addition, I have estimated that the additional charges to  
11 bring this case to conclusion, including the hearing, will be approximately \$5,207.  
12 I will update the rate case expense at the hearing. Attached hereto is Rebuttal  
13 Exhibit SML-3, which sets out the Company's costs incurred through February 15,  
14 2002 and an estimated cost through the hearing date. There should be no  
15 argument that the Company has incurred or will incur these expenses. The  
16 Commission should allow these costs to be included in the rate case expense in  
17 this case, or in the alternative, allow the Company to file a late filed exhibit  
18 indicating actual cost through the hearing date.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes it does.

**Summary of Total Uncollected Billings Compared to Uncollectible Accounts**

		<u>1999</u>	<u>2000</u>	<u>2001</u>
Total Uncollected Billings	(1)	\$ 23,937.43	\$ 14,481.95	\$ 29,035.26
Total Balance Uncollectible Accounts	(2)	\$ 22,747.97	\$ 18,186.30	\$ 22,063.95
Difference	(3)	\$ (1,189.46)	\$ 3,704.35	\$ (6,971.31)

**Footnotes:**

- (1) Row 10 of Page 2 of SML-Rebuttal Exhibit 1
- (2) Row 13 of Page 2 of SML-Rebuttal Exhibit 1
- (3) (2) - (1)

		<u>1999</u>	<u>2000</u>	<u>2001</u>
A/R Balance as of 1/1	(1) \$	190,301.19	\$ 204,534.55	\$ 198,508.79
Billing for period 1/1 to 12/31	(2)	188,717.89	182,419.65	186,101.76
Subtotal	(3)	379,019.08	386,954.20	384,610.55
Bad Debt - Write offs	(4)	(9,704.07)	(20,507.71)	(10,891.99)
A/R Balance as of 12/31	(5)	(204,534.55)	(198,508.79)	(216,652.06)
Cash Collected	(6) \$	164,780.46	\$ 167,937.70	\$ 157,066.50
Cash Collected	(7) \$	164,780.46	\$ 167,937.70	\$ 157,066.50
Billings	(8) \$	188,717.89	\$ 182,419.65	\$ 186,101.76
Percentage of Uncollected to Billings	(9)	12.68%	7.94%	15.60%
Total Uncollected	(10) \$	23,937.43	\$ 14,481.95	\$ 29,035.26
Total Uncollectible Accounts	(11)	(3,256.25)	44,190.52	22,063.95
Correction of Recording Error	(12)	26,004.22	(26,004.22)	N/A
Subtotal	(13) \$	22,747.97	\$ 18,186.30	\$ 22,063.95

Footnotes:

- (1) General Ledger Acct.# 1411000
- (2) General Ledger Acct.# 4611020
- (3) (1) + (2)
- (4) General Ledger Acct.# 6708000: Only Billing Codes 00017 & 00019
- (5) General Ledger Acct.# 1411000
- (6) (3) + (4) + (5)
- (7) (6)
- (8) (2)
- (9) 1 - (7) / (8)
- (10) (8) - (7)
- (11) General Ledger Account #6708000
- (12) Correction of Recording Error
- (13) (11) + (12)

will generally suspend the proposed rate increase for a period of time.<sup>85</sup> The company, with the concurrence of the commission or its staff, will generally select a "test year," frequently the latest twelve-month period for which complete data are available. The purposes of such a test year are as follows. In the first place, the commission's staff must audit the utility's books. For rate-making purposes, only just and reasonable expenses are allowed; only used and useful property (with certain exceptions) is permitted in the rate base. In the second place, the commission must have a basis for estimating future revenue requirements. This estimate is one of the most difficult problems in a rate case. A commission is setting rates for the future, but it has only past experience (expenses, revenues, demand conditions) to use as a guide. "Philosophically, the strict test year assumes the past relationship among revenues, costs, and net investment during the test year will continue into the future."<sup>86</sup> To the extent that these relationships are not constant, the actual rate of return earned by a utility may be quite different from the rate allowed by the commission.<sup>87</sup> For many years, commissions have adjusted test-year data for "known changes"; that is, a change that actually took place during or after the test period (such as a new wage agreement that occurred toward the end of the year). More recently, due largely to inflation, a few commissions have modified the traditional historic test-year approach by using a forward-looking test year (either a partial or a full forecast)<sup>88</sup> or by permitting pro forma expense and revenue adjustments.

The case will be set down on the commission's docket for future public hearings, and due notice will be given to the utility's customers.<sup>89</sup> Before the case is called, the utility, the commission's staff and "interveners" (interested parties)<sup>90</sup> will file their testimony (prefiled "canned" testimony). Such testimony usually is presented by outside experts, as well as by both company and staff personnel. Any of the parties in the case may make data requests to the others.<sup>91</sup> When the case is called, the hearing is conducted by an administrative law judge,<sup>92</sup> a panel (one or more) of the commissioners or the full commission. All witnesses are sworn, the evidence is recorded (transcribed), and witnesses may be questioned by the administrative law judge or commissioners and cross-examined by counsel for the staff and other parties. In some instances, hearings are held in the community or communities affected. Individual consumers, even though not represented by counsel, are permitted to testify and, in a few states, to cross-examine witnesses.<sup>93</sup>

After all evidence has been received, the record is closed. Briefs may be filed by the various parties. When an administrative law judge presides, an "initial" or "recommended" decision is subsequently issued by the judge.<sup>94</sup> The decision must be written and accompanied by formal findings of fact and conclusions of law. It is then subject to review by the full commission<sup>95</sup> (usually through the filing of briefs that take exception to part or all of the initial decision,<sup>96</sup> but sometimes in an oral presentation). Once the commission has issued its decision and order, petitions may be filed for reconsider-

<u>Description</u>	<u>Amount</u>	
<u>Rase Case Expense Through February 15, 2002</u>		
Number of Customer Notices Sent	1,494	
Postage	<u>0.34</u>	
Subtotal		\$ 507.96
Number of Customer Notices Sent	1,494	
Stock Expense	<u>0.0526</u>	
Subtotal		78.58
Hours of Steven Lubertozzi	124	
Capitalized Time - Rate	<u>\$ 51</u>	
Subtotal		6,324.00
Sidley, Austin, Brown & Wood	<u>2,333.30</u>	
Rase Case Expense Through February 15, 2002		\$ 9,243.84
<u>Estimated Costs to Complete</u>		
Hours of Steven Lubertozzi	32	
Capitalized Time - Rate	<u>\$ 51</u>	
Subtotal		1,632.00
Sidley, Austin, Brown & Wood	<u>3,575.00</u>	
Estimated Costs to Complete - Through Hearing		<u>\$ 5,207.00</u>
Total Rate Case Expense		<u><u>\$ 14,450.84</u></u>

CUSTOMER EQUIVALENTS 12/31/00			CUSTOMERS	CUSTOMER EQUIVALENTS	% BY STATE	% WITHIN STATE
ILLINOIS						
A. USAGE						
014	Camelot	W S	203	305	0.172%	2.3%
018	Charmar	W	53	53	0.030%	0.4%
022	Cherry Hill	W	235	235	0.133%	1.8%
026	Clarendon	W	477	477	0.269%	3.6%
034	County Line	W	120	120	0.068%	0.9%
038	Del Mar DISTRIBUTION ONLY	W	83	42	0.024%	0.3%
042	Ferson Creek	W S	376	564	0.318%	4.3%
046	Galena Territory	W	1,816			
046	Galena Territory	S	840	2,236	1.261%	17.0%
048	Harbor Ridge	W	283			
048	Harbor Ridge	S	283	425	0.240%	3.2%
049	Great Northern	W	360	360	0.203%	2.7%
050	Killarney	W	349	349	0.197%	2.7%
066	Northern Hills	W	172			
066	Northern Hills	S	186	272	0.153%	2.1%
070	Lake Marian	W	278	278	0.157%	2.1%
082	Valentine	W	71	71	0.040%	0.5%
086	Walk-up Woods	W	220	220	0.124%	1.7%
090&062	Whisp.Hills/Pist./Sun	W	2,167	2,167	1.222%	16.5%
096	Medina	S	505	505	0.285%	3.8%
098	Cedar Bluff	S	132	132	0.074%	1.0%
B. AVAILABILITY SYSTEMS						
011	Apple Canyon Usage	W	670			
010	Apple Canyon Avail (Split)		2,025	1,176	0.663%	9.0%
055	Lake Holiday Usage	W	1,719			
054	Lake Holiday Avail (Split)		366	1,811	1.021%	14.1%
059	Lake Wildwood Usage	W	388			
058	Lake Wildwood Avail (Split)		1,400	738	0.416%	5.6%
	Holiday Hills Utilities, Inc.	W	240	240	0.135%	1.8%
	Westlake Utilities, Inc.	W S	100	150	0.085%	1.1%
-->	Wildwood Water Service Company	W	200	200	0.113%	1.5%
TOTAL ILLINOIS			16,996	13,126	7.401%	100.00%
TOTAL VIRGINIA			4,610	3,077	1.735%	
TOTAL LOUISIANA			15,999	12,061	6.800%	
TOTAL INDIANA			5,744	4,318	2.435%	
TOTAL OHIO			1,155	586	0.330%	
TOTAL SOUTH CAROLINA			22,618	18,538	10.452%	
TOTAL NORTH CAROLINA			57,828	41,054	23.149%	
TOTAL FLORIDA			73,588	54,741	30.865%	
TOTAL GEORGIA			9,337	6,536	3.685%	
TOTAL MISSISSIPPI			1,737	1,737	0.979%	
TOTAL TENNESSEE			499	499	0.281%	
TOTAL MARYLAND			6,924	5,808	3.275%	
TOTAL PENNSYLVANIA			4,712	3,623	2.043%	
TOTAL NEW JERSEY			1,053	894	0.504%	
TOTAL NEVADA			5,929	5,861	3.305%	
TOTAL ARIZONA			4,897	4,897	2.761%	
GRAND TOTAL ALL STATES			233,626	177,356	100.000%	100.0%

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

Lake Wildwood Utilities Corp.	)	
Proposed general increase in water and	)	Docket No. 01-0663
Sewer rates	)	

**NOTICE OF FILING**

TO: Attached Service List

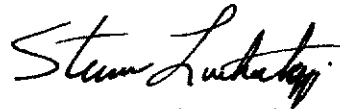
PLEASE TAKE NOTICE that on this 15<sup>th</sup> day of February, I have filed with the Chief Clerk of the Illinois Commerce Commission, the Rebuttal Testimony of Steven M. Lubertozi, copies of which are hereby served upon you,



Steven M. Lubertozi  
Director, Regulatory Accounting  
Utilities, Inc.  
2335 Sanders Road  
Northbrook, IL 60062

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Notice of Filing, together with the Rebuttal Testimony of Steven M. Lubertozi, were served upon the parties on the attached service lists by mail on the 15<sup>th</sup> day of February 2002

A handwritten signature in black ink, appearing to read "Steven Lubertozi". The signature is fluid and cursive, with the first name "Steven" and last name "Lubertozi" clearly distinguishable.

Steven M. Lubertozi  
Director, Regulatory Accounting  
Utilities, Inc.  
2335 Sanders Road  
Northbrook, IL 60062

Service List – Docket No. 01-0663  
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